



## **STAFF REPORT**

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### **Discussion and Direction on Request for Additional Funding for Mental Health Association of San Mateo County's Belmont Apartments, 800 F Street**

**Honorable Chair and Directors:**

#### **Summary**

On June 24, 2003, the Redevelopment Agency approved a grant to the Mental Health Association of San Mateo County to fund planning and building permit fees not to exceed \$250,000 for the new 24-unit apartment building at 800 F Street. Since then, building permits have been issued (7/21/04) and the project has begun construction. The Mental Health Association has contacted staff about two issues: Paying the sewer fee to the City of San Carlos instead of to the City of Belmont, and providing additional funding to the project (see request letters, attached as Exhibits A and B). This staff report seeks the Board's direction and response to these requests.

#### **Sewer Connection Fee**

When the Mental Health Association of San Mateo County received zoning approval to construct a 25-unit apartment building at 800 F Street, they also sought financial assistance for the project from the City. The Redevelopment Agency agreed to pay for planning, building and related project fees up to \$250,000 in exchange for a restrictive covenant requiring the units to remain affordable to Very Low income persons for fifty-five years. That covenant has been recorded and thus far \$37,360 has been paid by the Agency to the City for planning fees. Building and other fees are being processed.

One of the items on the list of City fees to be paid by the Agency is the sewer connection fee, which was estimated at \$43,750. Since then, the Mental Health Association has worked with the City's Public Works Department and with the City of San Carlos to allow the project to connect to the San Carlos sewer instead of the Belmont system. The San Carlos connection point is much closer to the site, reducing the cost of the installation. However, this means that the sewer

fees incurred by the project will be paid to the City of San Carlos, rather than to Belmont. The San Carlos sewer connection fee is \$40,000. The applicant and staff are seeking the Agency's guidance as to whether its grant was only for fees paid to the City of Belmont or for project development fees, regardless of the local agency.

The Agency's resolution on the matter (No. 413) states that the Agency approved "...a grant for funds for the planning and building permit fees not to exceed \$250,000 for a new 25-unit apartment building..." (Agency resolution attached as Exhibit C) The recorded Housing Reimbursement Agreement is more specific by stating that:

*"The Agency hereby agrees to provide the Grant to the owner in order to reimburse the Owner the costs to Owner of the City of Belmont Fees as set forth in Exhibit D attached here to up to a total amount no to exceed \$250,000."*<sup>1</sup>

It appears that the agreement only obligates the Agency to City of Belmont fees, although Exhibit D of the agreement (also attached to this memo as Exhibit D) includes a sewer fee that will not need to be paid to the City of Belmont. Staff believes that a strict reading establishes that the sewer fee to the City of San Carlos is not covered by the agreement. While the maximum amount of the grant remains at \$250,000, it is likely that the Agency need not spend more than approximately \$206,000 based on the agreement's fee estimate (\$250,000, less the \$43,750 sewer fee). Notwithstanding, the Agency may independently agree to pay the San Carlos sewer connection fee (see below).

### **Request for Additional Funds**

The Mental Health Association has submitted a separate request for supplemental funding of \$200,000 (Exhibit B). The request identifies several problems experienced by the Association in securing full funding for the project. Staff has not investigated the details of the request, but notes that the project is a 100% affordable housing project that qualifies for any LMI funding the Agency may deem appropriate.

It appears that the Mental Health Association has run into two problems – a recharacterization of the project by the Federal Home Loan Bank that resulted in the loss of \$200,000 in federal funds, and increased construction costs totaling about \$250,000. Typically, not-for-profit housing developers depend on a variety of federal, state, local and other sources to fund the construction and maintenance of low-cost and special needs housing. Staff does not have knowledge of the ins-and-outs of federal housing programs to understand the problem with the FHLB identified by the Association. Conversely, the City is well aware of the increases in construction costs, as we have experienced similar bid problems on a number of City projects.

The Agency may grant as much or as little of the request as it believes appropriate. Staff believes that the decision may be based on any number of factors, including the value of the project to the City, the benefit of providing additional support to 25 Very Low Income housing units, the reliability of the Mental Health Association or other relevant factors.

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<sup>1</sup> Article 2, Section 2.1, Housing reimbursement Agreement by and between Belmont Redevelopment Agency and Mental Health Association of San Mateo / Belmont Apartments; September 11, 2003

## **Fiscal Impact**

The Low and Moderate Income Housing Fund has sufficient funds for the entire amount. A review of the Agency's income in August 2002 indicated that the LMI fund would have approximately \$9.5 million to spend between 2003 and 2007 and would continue to receive about \$1.1 million dollars each year thereafter. The current five-year capital improvements program (FY 2005-2009) totals approximately \$3.6 million (including \$206,000 for the Mental Health Association project fees, the Emmett House, Homebuyer loans, RDA repayment and others), plus approximately \$4.5 million in debt service and administrative expenses. Therefore, there are approximately \$1.4 million of undesignated funds in the LMI Fund (\$9.5 million less \$8.1 million).

## **Recommendation**

Direct staff to make arrangements for payment to the Mental Health Association of San Mateo of an amount deemed appropriate by the Agency to support the 25-unit affordable housing project at 800 F Street.

## **Alternatives**

1. Provide no additional funds and deny the request.
2. Provide additional funds in the amount of:
  - A. \$ 40,000 (sewer fees to the City of San Carlos), or
  - B. \$200,000 (supplemental request), or
  - C. \$240,000 (sewer fee plus supplemental request), or
  - D. Other amount.
3. Continue the item for additional information based on Agency direction.

## **Attachments**

- A. Redevelopment Agency Resolution 413
- B. Letter from Mental Health Association – Sewer Fees (April 2, 2004)
- C. Letter from Mental Health Association – Supplemental Request (August 6, 2004)
- D. Fee Estimate (from Housing Reimbursement Agreement)

Respectfully submitted,

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